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December 14, 2009

Jennifer J. Johnson
Secretary, Board of Governors
Federal Reserve System
Constitution Avenue, NW
Washington, DC 20551

RE: Docket # R-1366

Dear Ladies and Gentlemen,

It has come to my attention that you are considering Option-A for Regulation Z that would eliminate the Yield Spread Premium (YSP), that is currently offered by lenders to mortgage brokers in exchange for higher interest rates on mortgage loans. Although it may seem that borrowers are overcharged using this practice, I assure you that the regulations in place at the present time are adequate and an institution of Option-A would most certainly hurt the industry as a whole especially at this crucial moment in our country's history.

Currently, Federal Laws on fees mortgage brokers are allowed to charge are capped out at 5%. This is actually less than the amount Real Estate Agents are allowed to charge home sellers. Also, all Lenders at the current time have a limit set on how much YSP they will allow the Broker to make. At present, Bank of America will not pay to the Broker more than 3%.

The true value of YSP may only be appreciated when looking at actual loan scenarios. Not all borrowers are financially secure and most all first-time home buyers are just getting started in their careers and are without adequate funds to actually pay closing costs. For this reason there are multiple rules in place to assist homebuyers and YSP is part of that category of home buyer assistance. Gift Funds from family members may be used to help home buyers limited by liquidity. They may also ask for seller-assistance of up to 6%. If seller-assistance is not involved, the broker may increase the interest rate and use the added YSP to assist the borrower with closing costs.

With refinance transactions, it is even more imperative that Option-A be withdrawn. Closing costs to refinance a mortgage loan typically range between $3,000 to $4,000. Most borrowers are unable to write a check at closing for that amount to save several hundred dollars a month on their mortgage payment. Most refinance transactions are done in this respect by rolling the closing costs into the loan balance thereby allowing the borrower to not take such a vast hit to their personal immediate liquidity of assets. Some borrowers do not want to pay closing costs at all and agree to a higher than market interest rate so that their fees will be covered by the transaction through YSP paid to the broker. For example; the borrower has an interest rate of 6.75% and is offered 4.75% which will save them $300 per month on their mortgage payment. However, the closing costs are $4,000 and the borrower is not able to write a check at closing for this fee and they do not want it added to the principle balance of their mortgage. The Broker informs the borrower that the closing costs can be covered by the broker at a premium interest rate of 5.375% which pays enough yield to cover closing costs. The borrower still saves $225 per month and does not incur out-of-pocket closing costs or added balance to their mortgage loan.

Some borrowers may not be in their home long enough to benefit from the long-term savings associated with reducing their interest rate and are only concerned with the monthly savings benefit. The FHA/VA Streamlined Refinance Program would effectively stop if brokers were no longer allowed to collect YSP which covers closing costs for the borrower. Typically, those fees are not allowed to be rolled into the loan and it's not feasible to pay $3,000 to save $100 per month on their mortgage payment. Most refinanced mortgages have their closing costs rolled into the loan. Today's home values are not affording borrowers this option and the closing costs are being covered by YSP on a majority of conforming loans. This is one of the reasons why FHA has seen such a huge jump in mortgage loan applications, the loan-to-value (LTV), allowed with FHA is higher than FNMA/FNMC conforming LTV's which in turn can still absorb the closing cost fees. Removing YSP form the mortgage loan industry will inevitably push even more borrowers into FHA loan programs.

After going over MBM Financials records from 2009, a full 65% of all closed loans utilized YSP to assist the borrower in covering some portion of their closing costs. It is my belief that outlawing Yield Spread Premiums will reduce purchase loans by 35% and reduce refinancing of mortgage loans by a full 50%. It is imperative that the Board of Governors realize that this aspect of the mortgage loan industry is vital to assisting borrowers without depleting their bank accounts.

Should you have any questions, please call me. My cell number is 443.536.8008.

With All Due Respect,

Alan McLaughlin

Alan McLaughlin
Principal